

September 14, 2007

Internal Revenue Service
Form 990 Redesign
ATTN: SE:T:EO, 1111
Constitution Ave., N.W.
Washington, DC 20224

Dear Internal Revenue Service:

On behalf of the American Diabetes Association, thank you for your efforts on the redesign of the Form 990. We strongly endorse your goal to facilitate accurate, complete and consistent reporting by exempt organizations. Upon review of the draft form, we find that many of the changes are a positive step forward. However, we also find that some of the changes work against your overall goal.

Please find our questions, comments, and suggestions on the Draft 990 attached. At the end of this document, I have noted a few issues that are not a product of the new form, but may also provide opportunities for improvement.

Sincerely,



Deborah L. Johnson
Chief Financial Officer

REVIEW OF PROPOSED IRS CORE FORM 990

Part I Summary

The summary page generally pulls forth information found elsewhere in the Form for a quick look at the reporting organization.

1. For tax purposes, the IRS does not permit reporting unrealized investment gains and losses as revenue. These amounts are reported as other changes in net assets on the Form 990. However, the **Part I** summary does not include a line item for other changes in net assets. Exclusion of this line is misleading the reader as to the overall net income of the organization. In addition, the difference between beginning and ending net assets on **line 24a** will often not calculate from the net income amount, which will cause confusion.
2. What is the overall intent of **line 24b** which calculates total expenses as a percentage of net assets? If the intent is to demonstrate a liquidity measure, then consider excluding permanently restricted net assets from the calculation. By definition, these funds cannot be spent.
3. Disclosures in **Line 25** and **Line 26** are inconsistent. **Line 25** pulls all organization revenue and expenses related to gaming activities from Schedule G. **Line 26**, however, only pulls revenue and expense directly related to contracts with outside individuals or corporations engaged for fundraising. All revenue and expenses for these activities are not included. In addition, the description on **Line 26** is misleading with the label of Fundraising Other Than Gaming. Again, the information that is pulled from Schedule G only reflects revenue and expense directly related to contracts with outside individuals or corporations engaged for fundraising. The description implies that all revenue and expenses related to all fundraising activities (other than gaming) are included.

Part II Compensation

The consolidation of reporting compensation to Directors, key employees and highly compensated employees is a nice improvement.

Part III Governance, Management and Financial Reporting

4. Clarity should be provided to the reader of the 990, which of these policies are legally required.
5. Question **3b** regarding the number of transactions reviewed under the Conflict of Interest policy could be interpreted with substantially different perspectives. The reader would likely be unclear as to whether a higher number is better, or whether a lower number is more desirable. The answer doesn't have any context to make a value determination, indicating that **3b** is not a relevant question.
6. Question **7a** could need clarification. Is the question asking about separate legal entities, or just additional locations throughout the country?

7. What is the intent of question 8? Is the intent to highlight whether accounting services are contracted through a third party? If so, there may be a way to ask the question in a more straight forward manner.

Part IV Statement of Revenue

The consolidation of reporting revenue and its exempt nature is a nice improvement.

8. Program service fees seems to be a common type of program service revenue to warrant a specific line item within section 2.

Part V Statement of Functional Expenses

With the attempts to update the expense classifications, a functional perspective has been blended with the natural perspective, which will cause continuing, if not new, inconsistencies and confusion.

9. The instructions for line 12 Advertising lead to many questions about what should be considered advertising, especially related to the in-house fundraising campaigns.
10. The category for line 13 of Office Expenses, gives the impression that costs in this line are of a general and administrative nature. Attempts may, therefore, be made to separate those that would not fall into an administrative category, such as postage to mail program materials, printing costs for publications, or supplies to run a children's camp. The result would increase the reporting burden and lead to inconsistencies in reporting as well as interpretation by the 990 reader. In addition, the inclusion of insurance and bank fees is an odd grouping with the rest of the expenses listed.
11. Information technology costs for line 14 is an integration of a functional category into a natural classification. As an example, should supplies for the help desk function be reported under office expenses or information technology? Should travel to implement new systems be reported on travel or information technology? In addition, similar to the label of "office supplies," a label of "information technology" implies a back-end, overhead type of cost. Yet a substantial amount of the expenses associated with the web site relate to providing direct program services, information and education.

Part VI Balance Sheet

The balance sheet disclosures are generally consistent with the current Form 990.

Part VII General Activities

12. Clarification is needed for line 1a to determine what answer is appropriate. As examples, would the following qualify for an answer of "Yes"?
 - An unsolicited contribution is received from an international source
 - A contribution is received from a company that maintains its headquarters internationally
 - The U.S.-based research program awards a grant to an international recipient

Part VIII Other IRS Filings

The consolidation of questions is a nice improvement.

Part IX Program Service Accomplishments

13. This part asks for the organization's most significant program service accomplishment for the year. In an environment that calls for nonprofit organizations to do a better job of communicating program accomplishments, requesting information on just a few accomplishments in limited space seems a disservice to the nonprofit organization.
14. What is the intent of disclosing direct fee or sales revenue related to each functional category? This disclosure reflects only a portion of the revenue raised in support of specific programs.

REVIEW OF PROPOSED SCHEDULES TO THE IRS FORM 990

Applicability of Supplemental Schedules to the American Diabetes Association:

<input checked="" type="checkbox"/>	A – Supplementary Information	<input checked="" type="checkbox"/>	I – Grants/Assistance in the U.S.
<input checked="" type="checkbox"/>	B – Contributors	<input checked="" type="checkbox"/>	J – Compensation
<input checked="" type="checkbox"/>	C – Political Campaign/Lobbying	<input type="checkbox"/>	K – Tax Exempt Bonds
<input checked="" type="checkbox"/>	D – Supplemental Financial	<input type="checkbox"/>	L – Loans
<input type="checkbox"/>	E – Schools	<input checked="" type="checkbox"/>	M – Non-Cash Contributions
<input checked="" type="checkbox"/>	F – Activities Outside the U.S.	<input type="checkbox"/>	N – Disposition of Assets
<input checked="" type="checkbox"/>	G – Fundraising Activities	<input checked="" type="checkbox"/>	R – Related Organizations
<input type="checkbox"/>	H – Hospitals		

Schedule A – Supplementary Information

The redesign and elimination of the cash basis requirement are nice improvements.

Schedule B – Contributors

No changes on this schedule

Schedule C – Political Campaign and Lobbying

The questions and disclosures regarding lobbying activities appear consistent with the current Form.

Schedule D – Supplemental Financial Statements

15. As a minor change, the flow of the Schedule is odd that assets are addressed in Sections I through VI, liabilities are addressed in Section VII, and then the Schedule returns to assets. A more consistent flow would be to have all Sections related to assets before the Section on liabilities.
16. **Section XII – Endowment Funds.** Clarification is needed as to whether this section relates only to permanently restricted contributions and net assets. If so, the section should be renamed as such, and an additional expenditure line should be added to indicate when the donor allows for unrestricted use of investment earnings. If the section is meant to include more than permanently restricted net assets, then this section will be confusing in its inconsistency to the permanently restricted disclosure.
17. Although the Form doesn't necessarily need another Schedule, most of Schedule D provides additional information about the balance sheet reported on the core form. The reconciliation of revenue and expenses to the financial statements does not flow smoothly.

Schedule F – Activities Outside the U.S.

18. Questions related to the core Form will answer some uncertainties for Schedule F.

19. **Part I, Line 5** needs to be more clear as to whether the disclosure relates to only grants made outside the U.S.

Schedule G – Fundraising Activities

20. It is unclear whether the calculation in **Part II** has changed from the current form. The uncertainty then further highlights that this format is misleading. For the current form, the instructions are clear that direct expenses should include “only the expenses directly attributable to the goods or services the buyer receives from a special event.” In the instructions for the proposed Form, the restriction on what expenses to include is not clear. Specifically, the guidance to include the cost of special event staff or contractors could apply to special event labor other than that which is directly attributable to goods or services provided.

The question on expenses then highlights that even the current Form 990 provides a misleading presentation of the profitability of a special event. It is typical for a nonprofit to evaluate the net income and fundraising success of a special event by analyzing gross receipts less all costs of conducting the event. To provide an alternate calculation does not give a comprehensive view of the event and has caused misleading reports about the efficiency with which special events are conducted.

21. An example would be helpful for the calculations in **Part II**. Often, a percentage of the contributions received in conjunction with events are intended to offset the costs of holding the event. The proposed calculation excludes the contribution portion of revenue which seems to inappropriately lower the net income earned on the event.
22. What is the intent for disclosure of the person responsible for gaming/special event record keeping in **line 16** and disclosure of the gaming manager in **line 18**? The IRS should be able to determine an appropriate contact for any gaming or event issues through the contact information on the core Form.
23. Organizations may contract with more than one organization for gaming activities, and **line 17** only provides for disclosure of one contract. A tabular format for activities over a threshold amount would be a better presentation.

Schedule I – Grants and Assistance Inside the U.S.

24. Seems interesting that the priority is to group activities outside or inside the U.S. as opposed to grouping all grant disclosures together like the current Form. One improvement may be to include this schedule directly after Schedule F, which lists grants outside of the U.S. With that sequencing adjustment, the grant reporting is somewhat grouped together.

Schedule J – Supplemental Compensation

25. What is the intent of the non-taxable expense reimbursement? The amount seems out of context without a basis of comparison. It is likely that many expenses are paid directly by an organization to vendors or service providers (e.g., travel or hotel costs).

Schedule M – Non-Cash Contributions

26. The reporting for Non-cash contributions seems to significantly increase the reporting burden without substantial value. For example, the number of donations made through a contribution of publicly traded securities does seem to be relevant information. If the intent of the disclosure is to identify non-cash contributions claimed at a high value, then consider leveraging Schedule B to highlight such contributions.

Schedule R – Related Organizations

The schedule has included an appropriate grouping of questions.

ADDITIONAL POINTS FOR CONSIDERATION

Return on Investments

Nonprofit organizations actively manage investment portfolios to maximize the return on investments, including unrealized gains/losses and net of investment management fees. The IRS should consider allowing these two components (unrealized gains/losses and investment management fees) to be reported in the revenue section with other investment income. By separating the components into other changes in net assets and direct expenses, the reader of the 990 does not get a clear picture of the organization's effectiveness at investing excess funds.

Reporting Consolidated Financial Results

Related organizations that are required to be consolidated for financial statement reporting purposes, must often be reported separately for completion of the IRS Form 990. In many cases, this segregated reporting is misleading because it does not present the full picture of the organization. The reconciliation of financial statements to the Form 990 can further confuse the financial analysis. An opportunity should be available to present the consolidated financial performance of the organization as part of the IRS Form 990. Although financial statements for the consolidated organization may be available, many readers do not extend beyond the 990 to complete a financial evaluation.

IRS Form 990 and State Filing Requirements

As the IRS Form 990 is revised, many of the changes incorporate questions asked by states for annual filing requirements. As an offset to any increased reporting burden, an initiative is recommended to align states in accepting the IRS Form 990 as the primary document for annual state filings. Such an alignment would substantially reduce the administrative burden on many organizations.